

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 SP-02 ICA-20 AID-05
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FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 AGRE-00 OES-09 DOE-15
SOE-02 DOEE-00 SSO-00 /162 W
-----120667 131825Z /42

P R 131753Z SEP 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 9971
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
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USEEC ALSO FOR EMBASSY
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USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA
E.O. 11652: N/A
TAGS: ECON, UK
SUZJECT: ECONOMIC DEVELOPMENTS FOR PERIOD SEPT 7-13
.

SUMMARY: WHOLESALE PRICES ROSE MODERATELY IN AUGUST
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WHILE RETAIL SALES VOLUME WAS LITTLE CHANGED FROM JULY.
THE CENTRAL GOVERNMENT RECORDED A SIZEABLE DEFICIT IN
ITS FINANCIAL TRANSACTIONS BUT BECAUSE OF SPECIAL FACTORS
THE PLANNED 8.5 BILLION POUND PUBLIC SECTOR BORROWING
REQUIREMENT REMAINS IN REACH. REVISED FIGURES SHOW
LARGER CURRENT ACCOUNT DEFICIT IN FIRST HALF OF 1978.
THERE WAS A LARGE DEFICIT FOR OFFICIAL FINANCING IN THE

SECOND QUARTER. BUILDING SOCIETIES' NET INFLOW IN AUGUST WAS UNCHANGED FROM JULY. STERLING STRENGTHENED ON THE REPORT OF NO U.K. ELECTION.
END SUMMARY

1. RETAIL SALES

RETAIL SALES VOLUME WAS VIRTUALLY UNCHANGED IN AUGUST. THE PROVISIONAL ESTIMATE PUT THE INDEX OF RETAIL SALES VOLUME (1971 EQUALS 100) AT 111.5, LITTLE DIFFERENT FROM THE FINAL JULY FIGURE OF 111.4. THE DEPARTMENT OF TRADE STATES THAT THE JULY AND AUGUST FIGURES "MAY HAVE BEEN INFLUENCED BY THE PAYMENT OF BACK DATED INCOME TAX REDUCTIONS." THE AVERAGE VOLUME OF RETAIL SALES FOR THE FIRST TWO MONTHS OF THE THIRD QUARTER WAS SOME 3.2 PERCENT ABOVE THAT OF THE SECOND QUARTER. THIS APPEARS TO CONFIRM A CONTINUED STRENGTHENING OF CONSUMER EXPENDITURE. SO FAR IN 1978 RETAIL SALES VOLUME HAS BEEN 4.5 PERCENT GREATER THAN THE 1977 AVERAGE.

2. WHOLESALE PRICES

RAW MATERIALS PRICES FELL IN AUGUST WHILE FINISHED GOODS PRICES ROSE MODESTLY. THE AUGUST WHOLESALE PRICE FIGURES MARK THE INTRODUCTION OF A REBASED INDEX (1975 EQUALS 100) USING 1974 PATTERNS OF SALES AND PURCHASES. THE INDICES ARE NOT AS YET SEASONALLY ADJUSTED. THE FOLLOWING TABLE SUMMARIZES THE MONTHLY DATA SINCE UNCLASSIFIED

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AUGUST 1977.

	(1975 EQUALS 100)			
	RAW	PERCENT	FINISHED	PERCENT
	MATERIALS	CHANGE FROM	GOODS	CHANGE FROM
	AND FUELS	PREVIOUS MONTH		PREVIOUS
		MONTH		
AUG	145.9	N.A.	143.8	N.A.
SEPT	143.6	-1.6	144.4	0.4
OCT	143.7	0.1	145.3	0.6
NOV	142.0	-1.2	145.7	0.3
DEC	141.0	-0.7	146.3	0.4
JAN	139.4	-1.1	148.3	1.4
FEB	139.1	-0.2	149.2	0.6
MAR	142.0	2.1	150.0	0.5
APR	145.1	2.2	150.9	0.6
MAY	146.8	1.2	151.9	0.7
JUNE	147.0	0.1	152.7	0.5
JULY(PROV.)	145.7	-0.9	153.8	0.7

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SOE-02 DOEE-00 SSO-00 /162 W
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P R 131753Z SEP 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 9972
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
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AUG(PROV.) 144.3 -1.0 154.5 0.5

THE RAW MATERIALS INDEX IS CURRENTLY 1.1 PERCENT
BELOW ITS LEVEL OF AUG 1977 WHILE THE FINISHED GOOD IN-
DEX HAS RISEN 7.4 PERCENT DURING THE SAME INTERVAL.
BECAUSE OF THE GREATER WEIGHT OF PETROLEUM PRODUCTS IN
THE NEW FINISHED GOODS INDEX, THE 12 MONTH RATE OF
CHANGE IS ABOUT 0.8 PERCENT LOWER THAN IT WOULD HAVE
BEEN USING THE 1970 INDEX. THIS IS BECAUSE OF THE
RELATIVE STABILITY IN OIL PRICES OVER THE PAST YEAR.
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THE AVERAGE MONTHLY INCREASE IN FINISHED GOOD PRICES IN 1978 HAS BEEN ABOUT 0.6 PERCENT (7 PERCENT AT AN ANNUAL RATE). SINCE LABOR COSTS HAVE APPARENTLY RISEN BY MORE THAN THIS AMOUNT, THERE HAS BEEN SOME PRESS SPECULATION THAT PROFIT MARGINS MAY BE COMING UNDER PRESSURE AS FIRMS HOLD PRICES IN THE FACE OF COMPETING IMPORTS. IT SHOULD BE NOTED THAT PRICES CHARGED BY FOOD MANUFACTURING INDUSTRIES ROSE MORE SLOWLY THAN THE AVERAGE (7.4 PERCENT) WHILE THOSE CHARGED BY OTHER MANUFACTURING INDUSTRIES ROSE BY ABOUT 1 PERCENTAGE POINT MORE THAN THE AVERAGE. INDEED THE MOTOR VEHICLES AND ENGINEERING INDUSTRIES SAW THEIR FINISHED GOODS PRICES INCREASE BY 11 TO 12 PERCENT IN THE PAST YEAR.

3. CENTRAL GOVERNMENT FINANCIAL TRANSACTIONS

THERE WAS A SUBSTANTIAL DEFICIT IN CENTRAL GOVERNMENT FINANCIAL TRANSACTIONS IN AUGUST. THE FOLLOWING TABLE SUMMARIZES THE MOST RECENT DATA:

(MILLION POUNDS)

	1978-79	AUGUST			
BUDGET	1 APR - 31 AUG	1977	1978		
FORECAST	1977	1978			

CONSOLIDATED

FUND:

REVENUE	42,746	15,433	16,692	2,92L	3,021
EXPENDITURE	-51,378	-17,171	-20,272	-3,309	-3,881
DEFICIT	-8,632	-1,738	-3,580	-388	-860

NATIONAL LOANS

FUND (1):

CONSOLIDATED

FUND DEFICIT	-8,632	-1,738	-3,580	-388	-860
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OTHER

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TRANSACTIONS:

RECEIPTS	6,400	1,950	2,391	278	368
PAYMENTS	-7,640	-2,399	-2,721	-69	-663
TOTAL NET BORROWING BY THE NATIONAL					
LOANS FUND	-9,872	-2,187	-3,910	-179	-1,155
OTHER FUNDS AND					
ACCOUNTS	1,935	681	341	198	114
CENTRAL GOVERNMENT BORROWING					
REQUIREMENT	-7,937	-1,506	-3,569	19	-1,041

(1) EXCLUDING NATIONAL DEBT AND OTHER TRANSACTIONS CONCERNED WITH THE FINANCING OF THE BORROWING REQUIREMENT.

THE 1.041 BILLION POUND AUGUST CENTRAL GOVERNMENT

BORROWING REQUIREMENT (CGBR) REFLECTS A SHARPLY HIGHER DEFICIT INCURRED BY THE NATIONAL LOANS FUND. A 2LL MILLION POUND BORROWING BY THE ELECTRICITY COUNCIL ACCOUNTS FOR MUCH OF THE INCREASED LENDING. HIGHER INTEREST PAYMENTS ON GOVERNMENT DEBT IS A FURTHER ELEMENT AFFECTING THE AUGUST FIGURES.

CONSOLIDATED FUND REVENUE WAS UP 8.1 PERCENT DURING THE FIRST 5 MONTHS OF FY 78/79 COMPARED WITH THE SAME PERIOD IN FY 77/78. CONSOLIDATED FUND EXPENDITURE WAS UP 18.1 PERCENT ON THE SAME BASIS. WHILE THE EXPENDITURE FIGURE IS ROUGHLY IN LINE WITH THE BUDGET FORECAST, THE REVENUE IS WELL BELOW THE 10.3 PERCENT RISE PLANNED AT THE TIME OF THE BUDGET. THE DISCREPANCY IS DUE TO THE PATTERN OF TAX REBATES AND IS EXPECTED TO DISAPPEAR BEFORE THE END OF THE FISCAL YEAR.

4. THE BUILDING SOCIETIES ASSOCIATION REPORTED A 200 MILLION POUND NET INFLOW IN AUGUST, THE SAME AS THE JULY RESULT. THE ASSOCIATION ANTICIPATES A NET INFLOW OF 250 MILLION POUNDS THIS MONTH. ALTHOUGH THE NET INFLOW IS NOT JUDGED TO HAVE BEEN REDUCED BY THE MEASURES TO UNCLASSIFIED

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OFFER HIGHER YIELDS ON THE COMPETITIVE NATIONAL SAVINGS SCHEMES INTRODUCED IN AUGUST, 200 MILLION POUND INFLOW LEVELS CANNOT PREVENT A RUNDOWN IN THE SOCIETIES' CASH RESERVES. IN AUGUST LENDING TO HOME BUYERS REACHED 783 MILLION POUNDS WHILE REPAYMENT RECEIPTS TOTALLED

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SOE-02 DOEE-00 SSO-00 /162 W

-----121094 131827Z /42

P R 131753Z SEP 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 9973
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
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324 MILLION POUNDS. RESERVES NOW STAND AT 18.1 PERCENT
OF TOTAL FUNDS.

5. BALANCE OF PAYMENTS STATISTICS FOR THE SECOND
QUARTER REVISED PREVIOUS CURRENT ACCOUNT ESTIMATES AND
PROVIDED DETAIL OF SECOND QUARTER CAPITAL MOVEMENT.
THE CURRENT ACCOUNT IS NOW ESTIMATED TO HAVE BEEN 198
MILLION POUNDS IN SURPLUS IN THE SECOND QUARTER 1978,
317 MILLION POUNDS IN DEFICIT IN THE FIRST QUARTER 1978,
AND 289 MILLION POUNDS IN SURPLUS FOR THE FULL YEAR 1977.
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PREVIOUS ESTIMATES WERE A 221 MILLION POUND SURPLUS,
A 305 MILLION POUND DEFICIT, AND A 165 MILLION POUND
SURPLUS FOR THE THREE PERIODS RESPEITIVELY.

THE BALANCE FOR OFFICIAL FINANCING WAS MINUS
1,494 MILLION POUNDS IN THE SECOND QUARTER. THIS RE-
FLECTED IN PART THE EARLY REPAYMENT TO THE IMF OF A SDR
700 MILLION CREDIT TRANCHE, NET REPAYMENTS OF FOREIGN
CURRENCY LOANS OF 218 MILLION POUNDS, AND THE RECEIPT
OF \$350 MILLION IN PROCEEDS OF BONDS ISSUED IN THE
NEW YORK CAPITAL MARKET. THE AUTHORITIES ALSO RESISTED
HEAVY SELLING PRESSURE ON STERLING DURING APRIL.

EXTERNAL STERLING BALANCES FELL 400 MILLION POUNDS
IN THE SECOND QUARTER, WHILE EXTERNAL STERLING LENDING
OF U.K. BANKS ROSE 350 MILLION POUNDS (ATTRIBUTED
PRIMARILY TO THE GROWTH IN EXPORT CREDIT). U.K. BANKS
IN FACT INCREASED THEIR FOREIGN CURRENCY LENDING BY 532
MILLION POUNDS MORE THAN THEIR FOREIGN CURRENCY BORROW-
ING (SEE LONDON A-590).

6. THE PRIME MINISTER'S ANNOUNCEMENT THAT THERE WOULD BE NO ELECTION SEEMED TO BOOST STERLING SMARTLY ON FRIDAY. THE FORWARD RATE ADVANCES WERE PARTICULARLY SHARP. MARKET SOURCES SUGGEST THAT "PRE-ELECTION POSITIONS" WERE SUDDENLY COVERED TO BRING ABOUT THE CHANGES. THE FOREIGN EXCHANGE MARKET WAS OTHERWISE QUIET UNTIL TODAY WHEN ON THIN VOLUME THE DOLLAR WEAKENED CONSIDERABLY, AND STERLING ROSE AGAINST THIS WEAKNESS. MARKET SOURCES DO NOT POINT TO ANY NEW FACTORS AFFECTING THE DOLLAR'S POSITION.

7. EXCHANGE RATE AND GOLD EFFECTIVE
EXCHANGE RATE
EXCHANGE (DEC. 1971 GOLD
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DATE	RATE (\$	EQUALS 100)	(\$)
9/1	1.9425	62.3	213-1/8
9/7	1.9375	WYWMW	211-1/8
9/8	1.9365	62.5	205-3/8
9/11	1.9430	62.5	207-1/8
9/12	WQMORTT	62.6	208-3/8
CHANGE 9/5-9/12 UP 0.0030 UP 0.31 \$92, 1-1/2			

8. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
9/6	-0.70	-1.70	-3.16
9/7	-0.65	-1.70	-3#20
9/8	-0.55	-1.50	-2.80
9/11	-0.43	-1.42	-2.73
29/12	-0.52	-1.37	-2.67
CHANGE 9/5-9/12 DN# 0.12 UP 0.05 DN. 0.13 (ALL FIGURES IN CENTS)			

9. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
9/6	8-1/8	8-7/8	9-1/8
9/7	8-9/16	8-7/8	9-1/8
9/8	8-162	WIAQQYQY	WOAQXI
9/11	9-1/81	8-7/8	9-3/16
9/12	8-5/8	9	9-3/16
CHANGE 9/5-9/12 UP 1/16 UP 1/8 DOWN 1/16			

10. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
9/6	1/2
9/7	9/16
9/8	11/16

9/11 1/2
9/12 5/16
CHANGE 9/5-9/12 DOWN 3/16
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11. STERLING CERTIFICATES OF DEPOSIT
DATE 1 MONTH 3 MONTHS 6 MONTHS
9/6 9 9-5/16 9-9/16

9/7	9-1/16	9-3/8	9-9/16
9/8	9-1/16	9-1/4	9-1/2
9/11	9	9-3/16	9-5/8
9/12	9-13/64	9-3/16	9-5/16

CHANGE 9/5-9/12 UP 13/64 UP 1/8 DOWN 7/32

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12. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON
GOVERNMENT SECURITIES

DATE	5 YEARS	15 YEARS	25 YEARS
9/6	11.55	12.62	12.83
9/7	11.50	12.65	12.85
9/8	11.55	12.61	12.81
9/11	11.60	12.63	12.83
9/12	11.62	12.64	12.84

CHANGE 9/5-9/12 UP 0.04 UP 0.02 UP 0.02

13. THE MINIMUM LENDING RATE REMAINED 10 PERCENT AS SET
JUNE 8.

14. THE AVERAGE TREASURY BILL RATE FELL 0.1195 PERCENT
TO 8.9271 PERCENT AT FRIDAY'S AUCTION, THE 300 MILLION
POUNDS IN BILLS ATTRACTING 1,043.03 MILLION POUNDS IN
BIDS. THIS WEEK 300 MILLION POUNDS IN BILLS WILL BE
OFFERED AS THE SAME AMOUNT MATURES.
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Message Attributes

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Status: NATIVE
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TAGS: ECON, UK
To: STATE TRSY MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/200c5851-c288-dd11-92da-001cc4696bcc
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